

Creating Your Financial Future

A Financial "Tip" Sheet

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*Change is not made
without inconvenience,
even from worse to
better!*

Samuel Johnson

Places to Find Money

Trying to find places to trim your budget to free up some money to payoff credit card debt or start investing for the future? Here's a tip worth considering:

#1: If you eat lunch out every day cut back by taking your lunch one or two days a week. Here's what you could save:

Example: If you stayed on the job for 30 years and substituted a \$2.00 lunch for a \$7.50 lunch and deposited the \$5.50 in an investment earning 8% interest compounded over 30 years, you would have around \$100,000.

Another "tip" to make bringing your lunch more exciting is to form and "investment" club within your work group. Invite outside speakers or take turns researching stocks and learn how to track investments.

How Long Will It Take to Double the Money You Invest?

Compound interest is critical to the growth of the money you invest. With compound interest the return you receive on your initial investment is automatically reinvested. In other words you receive interest on the interest.

How quickly does money grow? The easiest way to figure on fast your money is growing is to apply the "Rule of 72." Simply divide 72 by the interest rate you get on your money to get the answer.

For example, if you invest \$10,000 at 10% compound interest by the Rule of 72 you will double your money in 7.2 years.

Just as compound interest is the great ally to an investor, inflation is the great enemy. The "Rule of 72" can also help you figure the damage that inflation can do to your money.

For example: say you decide not to invest your \$10,000 but hide it under your mattress instead. Assuming an inflation rate of 4.5%, in 16 years time your \$10,000 will have lost half its value.

The real rate of return is the key to how quickly your money will grow. If you are receiving 10% interest on an investment but the inflation rate is 4% your real rate of return is 6%. Under this scenario it will take your money 12 years to double in value.

The "Rule of 72" is a quick and easy way to determine the value of compound interest over time. Be sure to take into consideration the inflation rate to determine your real rate of return.